



Rodney's Take

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California (Down Payment) Dreamin'

It must be awesome to be part of the California State Legislature, where financial reality rarely knocks on the door and is never allowed into the room. For the latest example, take a look at the state's home downpayment assistance program, which ran out of money in less than two weeks. Potential borrowers might have thought the deal was too good to be true, but don't underestimate the legislators' ability to encourage the wrong thing. And like every dream, this one potentially could turn into a nightmare.

The Dream for All Program was part of Assembly Bill 140, passed in 2021. It calls for the state to loan homebuyers all or part of their home downpayment in exchange for a portion of the ownership. The state then shares in the home's appreciation which, along with the original loan, will be paid out when the property is resold. The legislature desperately wanted to target minorities, but they are constrained by existing law. The closest they could get was to limit the program to homebuyers who make less than a certain amount in income, which depends on where they live.

The original program called for providing \$1 billion in downpayment assistance per year for 10 years, but then the economy got in the way. Last year, Governor Newsom trimmed the program to \$500 million, and this year, as the state faced down a \$24 billion budget, he cut the program again, to \$300 million. When the program finally opened for the first time at the end of March, it took just 12 days to run dry, assisting just 2,564 buyers. While a California state legislator declared the program a success, he's missing the

fact that the subsidies drive up costs for all other buyers while providing cash for just a few. In that way, Dream for All Shared Appreciation Loans end up making homes even more unaffordable.

And then there's the problem of what happens if things go south.

The last line on the California Housing Finance Agency (CalHFA) information page addresses the issue of what happens when home values fall instead of rising. If that happens, CALHFA says, "The principal amount of the Shared Appreciation Loan is still due and payable. If the appreciation of the property is zero or less, no additional monies would be due." Given that the average amount dispersed was \$115,000, let's hope that no one has to move anytime soon and that their values don't fall too far. Kicking off this program near the top of the real estate cycle might not have been the best timing and could turn this into the stuff of nightmares.

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Got a question or comment? You can contact us at info@hsdent.com.